Testimony of

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Finance, Revenue & Bonding Committee
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***SB 443 An Act Concerning the Tax Incidence Report, Tax Incidence Analyses and the Disclosure of Returns and Return Information***

Good morning Senator Fonfara, Representative Scanlon and members of the Finance, Revenue & Bonding Committee. My name is Ed Hawthorne, and I am proud to serve as the President of the Connecticut AFL-CIO, a federation of hundreds of local unions representing more than 200,000 members in the private sector, public sector, and building trades. Our members live and work in every city and town in our state and reflect the diversity that makes Connecticut great. I am also here today to testify as a member of Recovery For All, a statewide coalition of faith, community, and labor organizations united to eliminate systemic inequalities and rebuild a better Connecticut. Thank you for the opportunity to testify in support of SB 443 An Act Concerning the Tax Incidence Report, Tax Incidence Analyses and the Disclosure of Returns and Return Information.

Tax incidence is an estimate of the total tax burden placed on residents. It includes both the taxes filers pay directly (e.g., income tax, sales tax, property tax, etc.) and those that are indirectly shifted onto them by businesses through higher rents, consumer prices and fees. The 2014 state tax incidence analysis performed by the Department of Revenue Services revealed that the bottom 50% of earners contribute 23.6% of their income in taxes, but the top 1% contribute only 7.5%.The newly-released 2022 report shows that low-income households have lost ground since 2014. They now pay up to 26% of their income in taxes. Middle income households are also paying more - as much as 15.5%. Yet the ultra-wealthy's effective tax rate has remained flat. The same upside down effect can be said of corporate taxes. The 2022 report shows small businesses with adjusted gross incomes of $500,000 or less, pay a much higher percentage of that income in taxes than businesses that earn $1 million or more. To put it simply, Connecticut's tax system is more regressive now than it was in 2014.

When he appeared before this committee on March 11th, Department of Revenue Services Commissioner Mark Boughton cautioned against comparing the two analyses, since he and his team used a different methodology to prepare the 2022 report. The 2014 report includes the impacts of four taxes that were not included the 2022 report. Three of those four — levies on utilities, insurance and real estate transactions —are regressive and are paid indirectly after businesses shift them onto households. The fourth is the estate tax that predominately impacts wealthy households. Overall, the data in the 2022 report is reported by individual, rather than by household in the 2014 report. The result is that the 2022 report cannot be easily compared with the 2014 report and cannot credibly used to evaluate historical trends. There were high hopes that the long-awaited 2022 report, and succeeding reports, together with the 2014 report, would allow the General Assembly to evaluate historical trends and provide a basis for trend forecasting.

The 2022 report isn't useless, but it's not as helpful a tool as it could have been or should have been. It states clearly, almost proudly, that it does not include any forecasting or trend analysis. It also fails to include taxes paid by non-resident corporations or disaggregate relative tax burdens by gender and race. We also learned at the March 11th briefing that there is no data, only anecdotal suggestions, to support the oft-repeated notion that the ultra-wealthy will leave the state if they are asked to pay the same percentage in taxes as low-income earners.

The purpose of a tax incidence report is to provide lawmakers with historical data to enable reasonably accurate forecasting and inform tax policy. It should serve as roadmap to guide those important decisions. SB 443 will ensure that future tax incidence reports are detailed and uniform, giving policymakers the tools they need to right size Connecticut's unequal tax burdens by requiring the inclusion of:

- data for the most recent ten tax years for which data is available;
- include incidence projections for each tax;
- tax burdens on the top five percent of taxpayers;
- tax burdens on the top one percent of taxpayers;
- the percentage of taxpayers who are:
  - homeowners;
  - single;
  - married;
  - seniors;
  - have children; and
- the average market value of a home and average monthly rent for each income class

To ensure future reports provide a full picture of how tax burdens impact all kinds of taxpayers, including women and taxpayers of color, we encourage the Committee to include the following language after line 21:

*(D) For each income class, the racial and gender makeup;*

SB 443 further aides the General Assembly in making informed revenue policy decisions by requiring the Commissioner of Revenue Services to provide incidence impact analyses on any bill that proposes to increase or decrease tax revenue or redistribute the tax burden by more than $20 million. It also fosters transparency by authorizing DRS to share tax return information with chamber leaders and leaders of this Committee. Without access to this information, policymakers can only make educated guesses about how their judgments will move the needles on fairness and equity.

The scale of Connecticut's inequality demands a bold response. If enacted, SB 443 will help lawmakers be effective in their efforts to stop the financial hurt so many families are feeling and set Connecticut on a path of robust economic recovery by creating a fair tax code.

Thank you for the opportunity to testify.